REPORT OF EXAMINATION
OF THE

CALIFORNIA CASUALTY
INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed June 13, 2008

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San Francisco, California
April 25, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 1900 Alameda de las Pulgas, San Mateo, California 94403.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination was conducted concurrently with the Company's parent, California Casualty Indemnity Exchange, the Company's affiliate, California Casualty Compensation Insurance Company, and the Company's two subsidiaries, California Casualty General Insurance Company of Oregon and California Casualty & Fire Insurance Company. These insurers are collectively referred to as the California Casualty Group (Group) hereinafter.

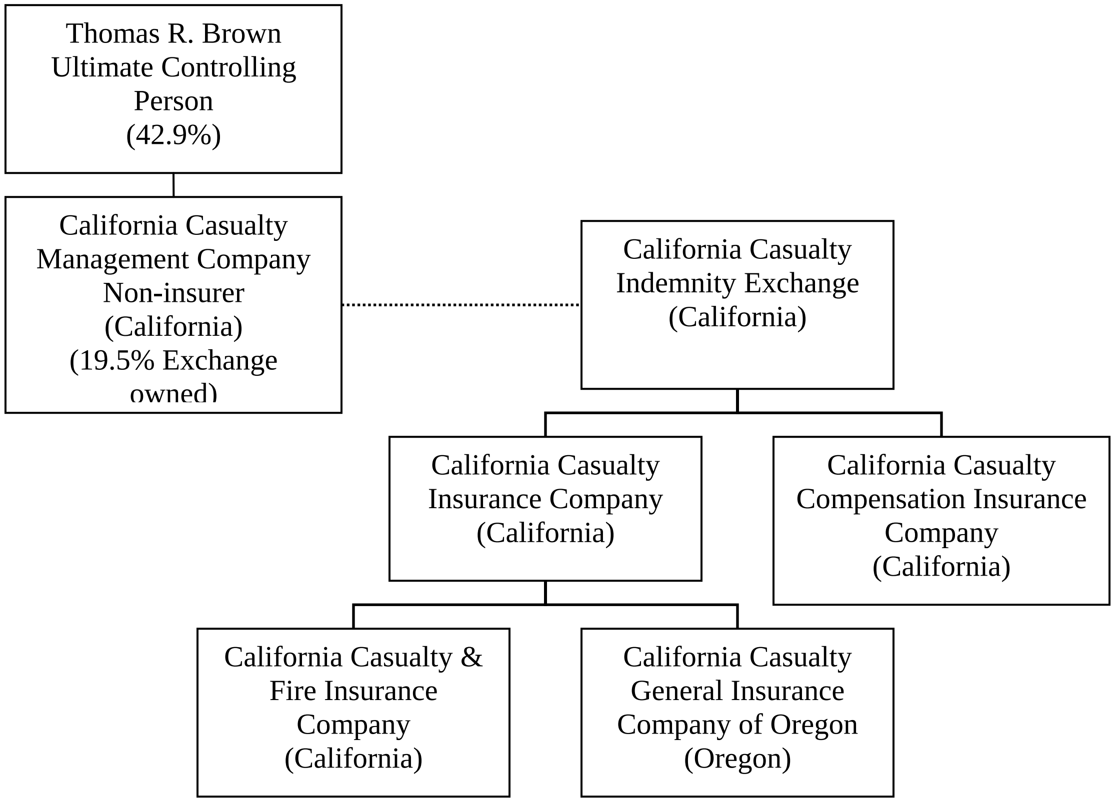
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; loss experience; and sales and advertising.

COMPANY HISTORY

During 2004, the Company contributed $2 million to its subsidiary, California Casualty & Fire Insurance Company (CCFIC), as gross paid-in and contributed surplus to support CCFIC's reinsurer status in various states. This transaction was exempted from prior approval requirements pursuant California Insurance Code Section 1215.5(b)(1)(A).

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system which is controlled by the California Casualty Management Company (CCMC), as the attorney-in-fact for the California Casualty Indemnity Exchange (Exchange). As of December 31, 2006, Thomas Runnels Brown owned or controlled 42.9% of the Class A voting common stock of CCMC. The following is an abridged organizational chart showing the relationship of the Company in the holding company system:



(*) all ownership is 100% unless otherwise noted.

As of December 31, 2006, CCMC held a 49% ownership interest in Pillar Point Equity Management, LLP (PPEM). PPEM provides investment management services to CCMC and the Group as described below under the section "Intercompany Agreements." On September 26, 2007, PPEM purchased CCMC's ownership interest in PPEM and ceased being a member of the California Casualty holding company group. This transaction resulted in no change to the investment management agreement.

The Board of Directors manages the business and affairs of the Company. Following are members of the Board of Directors and the principal officers of the Company serving as of December 31, 2006:

Members of the Board of Directors

Name and Residence	Principal Business Affiliation
David Allen Aaker Orinda, California	Retired University of California, Berkeley
James David Altman Menlo Park, California	Retired Johnson & Higgins of California
Jonathan Archer Brown Fair Oaks, California	President Association of Independent Colleges and Universities
John Edward Cahill, Jr. Kentfield, California	Chairman and Chief Executive Officer Chahill Contractors, Inc.
William Rynol Dahlman North Hollywood, California	President and Chief Executive Officer Employers Group
Wayne Shawn Diviney Norfolk, Virginia	Retired National Education Association
Carolyn Ellen Doggett Belmont, California	Executive Director California Teachers Association
Jon Howell Hamm El Dorado Hills, California	Executive Manager California Association of Highway Patrolmen
Richard Wayne Johnson Santa Barbara, California	Retired California Teachers Association
R. Kirk Lindsey Modesto, California	President Brite Transport System, Inc.
George Goodrich Coale Parker Portola Valley, California	Professor of Finance Stanford University Graduate School of Business
Edward Garland Phoebus III Silver Spring, Maryland	Vice President National Education Association Member Benefits
Lynne Francine Siegel Portland, Oregon	Retired Oregon Education Association

Members of the Board of Directors (continued)

Name and Residence	Principal Business Affiliation
Ralph Matthew Tornatore, Jr. Cool, California	Retired California Association of Highway Patrolmen
Suzanne Marie Zimmer Golden, Colorado	Assistant Executive Director Colorado Education Association

Principal Officers

Name	Title
Kai Grant Edwin Anderson**	President and Chief Executive Officer
Michael Allen Ray	Chief Financial Officer and Treasurer
James Michael Sevey	Secretary

***Kai Grant Edwin Anderson retired on February 28, 2007 and was replaced by Carl Beaumont Brown.*

Intercompany Agreements

The Company is managed by California Casualty Management Company (CCMC) under a management agreement effective January 1, 1994. Under the agreement, CCMC has the power to conduct, control and supervise the complete insurance activities of the Company. As compensation for the services performed, CCMC is paid a monthly fee of up to 125% of expenses incurred on behalf of the Company. In addition, the Company pays CCMC an annual incentive fee not to exceed 10% of the Group's calendar year pre-tax income. During 2006, the Company paid CCMC $4.8 million for the services provided under this agreement. Pursuant to California Insurance Code (CIC) Section 1215.5, this agreement was submitted to the California Department of Insurance (CDI) and approved on November 12, 1993.

Effective January 1, 1999, the Exchange entered into an amended tax allocation agreement with the other insurers in the California Casualty Group. Under this agreement, the consolidated federal income tax liability of the Group is allocated to each company in proportion to each company's share of taxable income, computed on a separate company basis. The Exchange is responsible for filing and making all tax payments on behalf of the Group. The tax allocation agreement was submitted to the CDI pursuant to CIC Section 1215.5(b)(4) on March 26, 2008 and is currently under review.

Effective October 1, 2004, CCMC, as attorney-in-fact for the Exchange, entered into an Investment Management Agreement with Pillar Point Equity Management, LLC (PPEM). Under this agreement, PPEM manages CCMC's and the Group's investments in accordance with the California Casualty Group Investment Policy Statement. PPEM is paid an annual fee equal to 0.5% of the market value of the securities under management, billed monthly in arrears. During 2006, no services were provided to and no fees were incurred by the Company under this agreement. Pursuant to CIC Section 1215.5(b)(4), the Investment Management Agreement was submitted to the CDI and approved on October 25, 2004.

CORPORATE RECORDS

The Company's directors are all members of the California Casualty Indemnity Exchange's (Exchange) Advisory Board and meet concurrently with the Exchange's Advisory Board. Pursuant to California Insurance Code (CIC) Section 735, the directors were informed of the receipt of each company's previous examination reports and an entry was made in the Exchange's Advisory Board meeting minutes. However, no entry was made in the Company's Board of Director's meeting minutes of this action. It is recommended that the Company comply with CIC Section 735. The Company stated that it will comply with CIC Section 735 in the future.

The Investment Policy Review Committee (IPRC) of the Exchange's Advisory Board also functions as the IPRC for the Company. Pursuant to CIC Section 1200 and 1201, investments were reviewed and approved by the IPRC and entries were made in the Exchange's Advisory Board meeting minutes to reflect such actions. However, no entry was made in the Company's Board of Directors meeting minutes of such actions. The Company began complying with CIC Sections 1200 and 1201 starting with the March 5, 2008 Board of Directors meeting.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance in the states of Arizona, California, Idaho, Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska, Nevada, New Mexico, Ohio, Oregon, Texas, Utah, Washington, Wisconsin, and Wyoming. The Company currently has an application pending with Florida.

Premiums are written primarily in Arizona with 55% of the total direct premiums written in 2006. California is the next largest state in direct written premiums with 40%. Total direct premiums written for the Company has decreased from $57 million in 2003 to $12.6 million in 2006. California Casualty Indemnity Exchange and California Casualty General Insurance Company of Oregon have taken over a greater share of the Group's direct business written in the states where the Company is licensed.

In 2006, the principal direct lines of business written were homeowners' multiple peril, auto liability and auto physical damage, which accounted for 41%, 26%, and 28% of total direct written premiums, respectively.

The manager of the insurance operations of the Company, California Casualty Management Company (CCMC), provides services for the Company under the management agreement. CCMC has approximately 700 employees, many of whom perform services for the Company in accordance with a management agreement. CCMC conducts operations from its home office in San Mateo, California and three service centers, providing comprehensive claims, underwriting, marketing, sales and administrative services. CCMC provides production and operating facilities pursuant to the provisions of the management agreement.

The Group is a highly specialized personal lines insurer that provides private passenger automobile and homeowners insurance to members of affinity groups primarily involved in education, law enforcement and public safety. Personal lines business is produced directly through licensed insurance agents, who are employees of CCMC. The agents receive a salary only (no commissions are paid) and are entitled to a bonus if the number of policies sold exceeds a given threshold.

REINSURANCE

Pooling Agreement

A revised pooling agreement was approved by the California Department of Insurance and Oregon Division of Insurance effective January 1, 2006. Under the terms of the agreement, the companies cede 100% of their direct business to the California Casualty Indemnity Exchange (Exchange). The agreement also includes a provision whereby personal lines insurance business is retroceded to, and assumed by, California Casualty Insurance Company (CCIC), California Casualty & Fire Insurance Company (CCFIC), and California Casualty General Insurance Company of Oregon (CCGIC) according to their respective pooling percentages of 8%, 10%, and 12%. The Exchange retains 70% of the pooled personal lines business. All workers' compensation and miscellaneous commercial lines direct and assumed business are in run-off and are retroceded 100% to California Casualty Compensation Insurance Company (CCCIC).

Assumed

The Company did not assume any reinsurance other than from the pooling agreement discussed above.

Ceded

Effective January 1, 2000, CCIC, CCFIC, CCGIC, and the Exchange (the Group) entered into a 15-year quota-share reinsurance agreement with Fireman's Fund Insurance Company (FFIC) on the Group's personal lines of business. Under the terms of this agreement, for the first five years of the treaty, the Group cedes 20% of personal lines written premiums and losses, and earns a ceding commission equal to 20% of the underwriting expenses. For the subsequent ten years of the treaty, the Group cedes 30% of the written premiums and losses and earns a ceding commission equal to 30% of underwriting expenses.

The Exchange had the following additional reinsurance agreements in effect at December 31, 2006:

Type of Contract	Line of Business	Reinsurer's Name	Exchange's Retention	Reinsurer's Limits
Catastrophe Excess of Loss				
1st Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 25% General Reinsurance Company – 15% American Re-insurance – 10% Unauthorized XL Re, Ltd. – 10% Mapfre Re – 5%	$15 million plus 35% of $10 million excess of $15 million per occurrence	65% of $10 million per occurrence excess of $15 million, $20 million annual aggregate
2nd Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 24% General Reinsurance Company – 12% American Re-insurance – 10% Transatlantic Re – 10% Unauthorized XL Re, Ltd. – 9% Mapfre Re – 5%	$25 million plus 30% of $20 million excess of $25 million per occurrence	70% of $20 million per occurrence excess of $25 million, $40 million annual aggregate
3rd Layer Excess of Loss	Property	Authorized Underwriter's at Lloyd's, London – 29.5% American Re-insurance – 15% Transatlantic Re – 10% American Agriculture Insurance Company – 3% Unauthorized Mapfre Re – 10% XL Re, Ltd. – 7.5% Hannover Re – 5%	$45 million plus 20% of $35 million excess of $45 million per occurrence	80% of $35 million per occurrence excess of $45 million, $70 million annual aggregate

The Group discontinued writing workers' compensation business in 1997, except for domestic workers' compensation coverage under homeowner's policies. Under the pooling agreement, all workers' compensation and miscellaneous commercial business in force are retroceded to CCCIC. Effective January 1, 2001, CCCIC entered into an adverse loss development cover with XL Re, Ltd., of Hamilton, Bermuda, covering workers' compensation claims with dates of injury prior to January 1, 1999.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the year ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders from December 31, 2003 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 29,976,975	$	$ 29,976,975	
Common stocks	55,044,224		55,044,224	
Cash and short-term investments	969,604		969,604	
Investment income due & accrued	296,122		296,122	
Premiums and agents' balances in course of collection	3,846,570	14,895	3,831,675	(1)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,314,253		9,314,253	(1)
Reinsurance recoverables	473,174		473,174	(2)
Net deferred tax asset	1,228,473	274,310	954,163	
Guaranty funds receivable	876		876	
Aggregate write-ins for other than invested assets	41,719	41,719		
Total assets	$ 101,191,990	$ 330,924	$ 100,861,066	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 7,178,355	(3)
Reinsurance payable on paid losses and loss adjustment expenses		175,531	
Loss adjustment expenses		1,944,443	(3)
Commissions payable, contingent commissions and other similar charges		209,981	
Other expenses		58,812	
Taxes, licenses and fees		51,391	
Unearned premiums		9,734,238	
Advance premiums		25,392	(1)
Ceded reinsurance premiums payable		2,368,354	
Amounts withheld or retained by company for account of others		279,153	
Payable to parent, subsidiaries and affiliates		442,318	(4)
Aggregate write-ins for liabilities		25,789	
Total liabilities		22,493,757	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	6,753,818		
Unassigned funds	69,013,491		
Surplus as regards policyholders		78,367,309	
Total liabilities, surplus and other funds		$ 101,861,066	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 19,569,313
Deductions:		
Losses incurred	$ 10,594,483	
Loss expenses incurred	3,477,431	
Other underwriting expenses incurred	5,863,548	
Total underwriting deductions		19,935,462
Net underwriting loss		(366,149)
Investment Income		
Net investment income earned	$ 1,506,053	
Net realized capital gains	68,065	
Net investment gain		1,574,118
Other Income		
Net loss from agents' balances or premium balances charged off	$ (63,483)	
Finance and service charges not included in premiums	155,660	
Total other income		92,177
Net income before federal income taxes		1,300,146
Federal income taxes incurred		(1,404,617)
Net income		$ 2,704,763

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 77,396,734
Net income	$ 2,704,763	
Change in net unrealized capital gains or losses	1,573,068	
Change in deferred income tax	(3,679,050)	
Change in nonadmitted assets	371,794	
Change in surplus as regards policyholders for the year		970,575
Surplus as regards policyholders, December 31, 2006		$ 78,367,309

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2003, per Examination			$ 67,931,579
Net income	$ 2,239,101	$	
Change in net unrealized capital gains	7,278,635		
Change in net deferred income tax		4,817,957	
Change in nonadmitted assets	5,735,951		
Totals	$ 15,253,687	$ 4,817,957	
Net increase in surplus as regards policyholders			10,435,730
Surplus as regards policyholders, December 31, 2006, per Examination			$ 78,367,309

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Premiums and Agents' Balances, Deferred Premiums, and Advance Premiums

The Company was not in compliance with Statements of Statutory Accounting Principles (SSAP) No. 53, paragraph 13, because advance premiums were incorrectly reported as an offset to the premiums and agents' balances in course of collection and deferred premiums, agents' balances and installments booked but deferred and not yet due accounts. SSAP No. 53, paragraph 13, requires that advance premiums be reported as a liability in the statutory financial statement. No examination adjustment was made since the amount involved is immaterial. It is recommended that the Company comply with SSAP No. 53, paragraph 13.

(2) Reinsurance Recoverables

The amount of letters of credit reported in Schedule F Part 5 is more than the amount actually held by the Company as of December 31, 2006. No exam adjustment was made because the letters of credit actually held are more than the reinsurance credits taken on behalf of the unauthorized reinsurers. It is recommended that the Company ensure that the letters of credit reported in Schedule F Part 5 accurately reflect such amounts actually held so that this schedule will not be misleading.

(3) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Exchange's loss and loss adjustment expense reserves as of December 31, 2006 were found to be reasonably stated and have been accepted for purposes of this examination.

The Company was not in compliance with California Insurance Code (CIC) Section 11558 because its carried liability reserves at December 31, 2006 for the most recent three accident years were below the statutory minimum reserves required by CIC Section 11558. The deficiency was immaterial and no examination adjustment was made. It is recommended that the Company comply with CIC Section 11558.

(4) Payable to Parent, Subsidiaries and Affiliates

The intercompany pooling agreement requires settlements to be made within 90 days after each month end. During the review of the intercompany accounts, it was noted that not all settlements were made within the 90 day period. Management stated that if a pool member does not have the investment funds available to settle completely, the receivable or payable is carried until the funds are available. The Group tries to avoid selling securities to settle intercompany balances. It is recommended that the Group try to settle intercompany balances within the timeframe described in the intercompany pooling agreement.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 6): It is recommended that the Company's Board of Director's meeting minutes reflect the fact that the directors were informed of the receipt of the report of examination pursuant to California Insurance Code (CIC) Section 735.

Comments on Financial Statement Items - Premiums and Agents' Balances, Deferred Premiums, and Advance Premiums (Page14): It is recommended that the Company comply with SSAP No. 53, paragraph 13.

Comments on Financial Statement Items – Reinsurance Recoverables (Page 14): It is recommended that the Company ensure that letters of credit reported in Schedule F Part 5 accurately reflect such amounts actually held so that this schedule will not be misleading.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 14): It is recommended that the Company comply with CIC Section 11558.

Comment on Financial Statement Items – Payable to Parent, Subsidiaries and Affiliates (Page 15): It is recommended that the Group try to settle intercompany balances within the timeframe described in the intercompany pooling agreement.

Prior Report of Examination

Reinsurance – Ceded (Page 8): It was recommended that the Company complete its negotiations with Fireman's Fund Insurance Company so that the quota-share reinsurance agreement between the companies complies with CIC Section 922.2(a) (2) and SSAP No. 62, paragraph 7. The Company is now in compliance with the above section and SSAP.

Accounts and Records - Information System Controls (Page 11): It was recommended that the Company evaluate the recommendations made and make appropriate changes to strengthen controls over its information system. The recommendations from the previous examination have been implemented.

Receivable from Parent, Subsidiaries and Affiliates (Page 15): It was recommended that the Company report pooled accounts and intercompany balances in accordance with Annual Statement instructions and settle them on a regular basis. Pooled accounts and intercompany balances are reported in accordance with the Annual Statement Instructions; however, not all intercompany balances are settled on a regular basis.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company’s officers and California Casualty Management Company’s employees during the course of this examination is hereby acknowledged.

Respectfully submitted,

/S/

Ber Vang, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California